
April 1999

PERFORMANCE BUDGETING

Initial Experiences Under the Results Act in Linking Plans With Budgets



19990520 015

DISTRIBUTION STATEMENT A
Approved for Public Release
Distribution Unlimited

DTIC QUALITY INSPECTED 4

Accounting and Information
Management Division

B-282035

April 12, 1999

The Honorable Fred Thompson
Chairman
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

The Government Performance and Results Act of 1993 (the Results Act) seeks to strengthen federal decision-making and accountability by focusing on the results of federal activities and spending. A key expectation is that the Congress will gain a clearer understanding of what is being achieved in relation to what is being spent. To accomplish this, the act requires that, beginning for fiscal year 1999, agencies prepare annual performance plans containing annual performance goals covering the program activities in agencies' budget requests. In addition, Office of Management and Budget (OMB) guidance states that agency performance plans should display, by program activity, the funding level being applied to achieve performance goals.¹ Plans that meet these expectations can provide the Congress with useful information on the performance consequences of budget decisions.

Our assessment of fiscal year 1999 performance plans found that agencies generally covered the program activities in their budgets, but most plans did not identify how the funding for those program activities would be allocated to performance goals.² To enhance the Congress' understanding of issues that may affect agencies' abilities to relate budgetary resources and results, you requested that we review selected fiscal year 1999 performance plans to (1) describe agencies' approaches to linking performance goals and budgetary resources, (2) examine characteristics that might be associated with different approaches to linking performance goals and budgetary resources, and (3) identify implications for future efforts to clarify the relationship between budgetary resources and results. More clearly describing and analyzing the approaches agencies developed to link funding requests with performance expectations can be an

¹OMB Circular A-11, Preparation and Submission of Budget Estimates, Sec. 220.9(e), June 23, 1997.

²Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD-98-228, September 8, 1998). For a discussion of key practices for improving the usefulness of annual performance plans, see Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers (GAO/GGD/AIMD-99-69, February 26, 1999).

important foundation as the Congress reviews agencies' fiscal year 2000 performance plans.

To respond to your request, we selected 35 fiscal year 1999 performance plans for review that covered entire agencies or large subordinate bureaus, services, or administrations.³ We developed a methodology to characterize each plan's structure and method of linking program activities and performance goals, and we gathered information on each agency's budget structure. We also identified agency plans in which program activity funding was allocated to performance goals—a key criterion for useful plans.⁴ We analyzed how characteristics differed among agencies that made such allocations and those that did not to determine which, if any, of the characteristics were statistically significant in making these allocations. We provided a draft of this report to OMB for comment and also discussed selected aspects of this report with staff from the Senate and House appropriations committees. See appendix I for a detailed discussion of our objectives, scope, and methodology.

Results in Brief

In their first Results Act performance plans, agencies experimented with a variety of approaches to connect budget requests with anticipated results. Although most agencies reviewed (30 of 35) defined some type of relationship between the program activities of their proposed budgets and the performance goals of their plans, far fewer (14 or 40 percent of the plans reviewed) translated these relationships into budgetary terms—that is, most plans did not explain how funding would be allocated to achieve performance goals. Such allocations are a critical first step in defining the performance consequences of budgetary decisions. We found that agencies with budget and planning structures of widely varying complexity made these allocations, but some common approaches were used. Agencies were significantly more likely to have allocated funding to program activities if they (1) showed simple, clear relationships between program activities and performance goals (as illustrated by eight agencies

³We generally focused on bureau-level plans for each department but limited our review to the three largest bureaus with discretionary spending over \$1 billion and/or the two largest bureaus. For a list of plans reviewed, see table I.1 in appendix I.

⁴While an allocation of funding requests to performance expectations is important, plans must also have other attributes to be fully useful. In addition to showing the performance consequences of budget decisions, useful plans need to contain results-oriented goals, clear strategies, and credible performance information. See GAO/GGD/AIMD-98-228, September 8, 1998 and GAO/GGD/AIMD-99-69, February 26, 1999.

in our review); (2) fully integrated performance plans into congressional budget justifications (as illustrated by five agencies); or (3) had changed their program activity structures to reflect their goal structures (as illustrated by three agencies).

Agencies' first-year experiences show progress in bringing planning and budgeting structures and presentations closer together, but much remains to be done if performance information is to be more useful for budget decision-making. Continued efforts are needed to (1) clarify and strengthen links between planning and budgeting structures and presentations and (2) address persistent challenges in performance planning and measurement and cost accounting. The progress that has been made, the challenges that persist—including the indefinite delay in the performance budgeting pilots called for by the act—and the Congress' interest in having credible, results-oriented information underscore the importance of developing an agenda to ensure continued improvement in showing the performance consequences of budgetary decisions. Therefore, we recommend that the Director of OMB assess the linkages between performance goals and program activities presented in the fiscal year 2000 plans and develop a constructive and practical agenda to further clarify the relationship between budgetary resources and results.

The Results Act and Performance Budgeting

The Government Performance and Results Act of 1993 is a key component of a statutory framework that the Congress put in place during the 1990s to promote a new focus on results.⁵ Finding that waste and inefficiency in federal programs were undermining confidence in government, the Congress sought to hold federal agencies accountable for the results of federal spending through regular and systematic performance planning, measurement, and reporting. Among its several purposes, the act is designed to improve congressional decision-making by providing more objective information on the relative effectiveness and efficiency of federal programs and spending. That is, with regard to spending decisions, the act aims for a closer and clearer link between the process of allocating resources and the expected results to be achieved with those resources.

⁵For a fuller discussion of this framework, see Managing for Results: The Statutory Framework for Performance-Based Management and Accountability (GAO/GGD/AIMD-98-52, January 28, 1998).

The Concept of Performance Budgeting

The concept of linking performance information with the budget is commonly known as performance budgeting.⁶ Within the past 50 years, initiatives at the local, state, and federal levels of government as well as in other nations have sought to link performance expectations with specific budget amounts. In essence, the concept of performance budgeting assumes that a systematic presentation of performance information alongside budget amounts will improve budget decision-making by focusing funding choices on program results. Specifically, performance budgeting seeks to shift the focus of attention from detailed items of expense—such as salaries and travel—to the allocation of resources based on program goals and measured results. In this sense, the Results Act is the most recent of a series of federal initiatives embodying concepts of performance budgeting.

At the federal level and elsewhere, performance budgeting initiatives have encountered many challenges.⁷ Key challenges include a lack of credible and useful performance information, difficulties in achieving consensus on goals and measures, dissimilarities in program and fund reporting structures, and limitations of information and accounting systems. For example, some prior initiatives used new and unfamiliar formats that were layered onto existing budget and appropriations processes, compromising the goal of integrating performance information into the budget process. Specifically in the federal government, past performance budgeting initiatives resulted in unique and often voluminous presentations unconnected to the structures and processes used in congressional budget decision-making.⁸

When viewed collectively, these past initiatives suggest three common themes. First, any effort to link plans and budgets must explicitly involve the executive and legislative branches of our government. Past initiatives often faltered because the executive branch developed plans and performance measures in isolation from congressional oversight and

⁶In this report, we use the term “performance budgeting” to refer generally to the process of linking expected results to budget levels, but not to any particular approach.

⁷See Performance Budgeting: State Experiences and Implications for the Federal Government (GAO/AFMD-93-41, February 17, 1993). For a discussion of past federal initiatives—including the Planning-Programming-Budgeting-System (PPBS) and Zero-Based Budgeting (ZBB)—and the evolution of the concept and techniques of performance budgeting, see Performance Budgeting: Past Initiatives Offer Insights for GPRA Implementation (GAO/AIMD-97-46, March 27, 1997).

⁸See GAO/AIMD-97-46, March 27, 1997.

resource allocation processes. Second, the concept of performance budgeting will likely continue to evolve. Past initiatives demonstrated that there is no single definition of performance budgeting that encompasses the range of needs and interests of federal decisionmakers. Third and perhaps most importantly, past initiatives showed that performance budgeting cannot be viewed in simplistic terms—that is, resource allocation cannot be mechanically linked to results. The process of budgeting is inherently an exercise in political choice—allocating scarce resources among competing needs—in which performance information can be one, but not the only, factor underlying decisions. Ultimately, the promise of any performance budgeting initiative, including the Results Act, lies in its potential to more explicitly infuse performance information into budgetary deliberations, thereby changing the terms of debate from simple inputs to expected and actual results.

Performance Budgeting Under the Results Act

The Results Act differs from earlier performance budgeting initiatives in several key respects but can be viewed as a continued evolution of the concept.⁹ At its most basic level, the act requires agencies' annual performance plans to directly link performance goals and the program activities of their budget requests. Testifying on the Results Act before its passage, the Director of OMB characterized this linkage as a "limited—but very useful—form of performance budgeting . . ."¹⁰ The act also requires that another form of performance budgeting be tested during performance budgeting pilots.

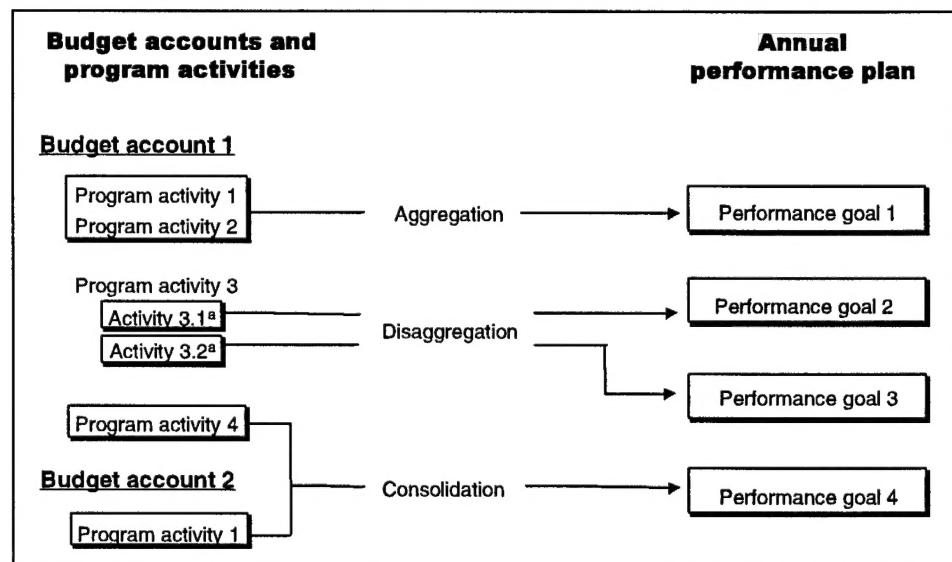
The Results Act requires an agency's annual performance plan to cover each program activity in the President's budget request for that agency. Subject to clearance by OMB and generally resulting from negotiations between agencies and appropriations subcommittees, program activity structures are intended to provide a meaningful representation of the operations financed by a specific budget account. Typically, the President's annual budget submission encompasses over 1,000 accounts and over 3,000 program activities. As the committee report accompanying the act noted, however, the program activity structure is not consistent across the federal

⁹See GAO/AIMD-97-46, March 27, 1997.

¹⁰Government Performance and Results Act of 1993, Committee on Governmental Affairs, United States Senate, S. Rpt. No. 58, 103d Cong. 1st Sess., p. 19 (1993).

government but rather is tailored to individual accounts.¹¹ The committee report further cautioned that agencies' annual plans should not be voluminous presentations that overwhelm rather than inform the reader. Accordingly, the act gives agencies the flexibility to consolidate, aggregate, or disaggregate program activities, as illustrated in figure 1, so long as no major function or operation of the agency is omitted or minimized. In addition to this flexibility, agencies also have the option to propose changing their budget structures, subject to concurrence from OMB and the Congress.¹²

Figure 1: Using the Results Act's Flexibility to Align the Annual Performance Plan With the Budget Account and Program Activity Structure



^aThese activities are created through disaggregation and would not necessarily appear in the list of program activities presented in the President's budget.

¹¹S. Rpt. No. 103-58, p. 31.

¹²OMB Circular A-11, Sec. 11.6(c), June 23, 1997.

OMB's guidance regarding this provision of the act set forth an additional criterion: plans should display, generally by program activity, the funding level being applied to achieve performance goals.¹³ That is, OMB expected performance plans to show how amounts from the agency's budget request would be allocated to the performance goals displayed in the plan.¹⁴

In addition to mandating a linkage between budget requests and performance plans, the act required that pilot projects be used to test another approach to performance budgeting. OMB, in consultation with the head of each agency, was required to designate for fiscal years 1998 and 1999 at least five agencies to prepare budgets that "present, for one or more of the major functions and operations of the agency, the varying levels of performance, including outcome-related performance, that would result from different budgeted amounts."¹⁵ While the act required agencies to define goals consistent with the level of funding requested in the President's budget, the act's pilots would also show how performance would change if the agency received more or less than requested. OMB was to include these pilot performance budgets as an alternative presentation in the President's budget for fiscal year 1999 and to transmit a report to the President and to the Congress no later than March 31, 2001, on the feasibility and advisability of including a performance budget as part of the President's budget. This report is also to recommend whether legislation requiring performance budgets should be proposed.

The performance budgeting pilots were scheduled to start in fiscal year 1998 "so that they would begin only after agencies had sufficient experience in preparing strategic and performance plans, and several years of collecting performance data."¹⁶ In this context, and recognizing the importance of concentrating on governmentwide implementation in 1998, OMB announced on May 20, 1997, that the pilots would be delayed for at least a year. OMB stated that the performance budgeting pilots would require the ability to calculate the effects on performance of marginal changes in cost and funding. According to OMB, very few agencies had this capability, and the delay would give time for its development. In

¹³OMB Circular A-11, Sec. 220.9(e), June 23, 1997.

¹⁴Subsequently, in its guidance on fiscal year 2000 plans, OMB noted that it expected to see "significant progress in associating funding with specific performance goals or sets of goals" in agencies' plans.

¹⁵31 U.S.C. 1119(b).

¹⁶S. Rpt No. 103-58, p. 38.

September 1998, OMB solicited agencies' comments on these pilots, but no agencies have been designated as pilots. At present, OMB has no definite plans for proceeding with the performance budgeting pilots.

Agencies Linked Complex Planning and Budgeting Structures Using Many Approaches

The complexities that are the hallmark of today's federal budget account structure and the diverse planning structures associated with broad federal missions were reflected in the approaches used to link budget and planning structures. The fiscal year 1999 performance plans we reviewed frequently depicted complex and imprecise relationships between these structures. Using the Results Act's flexibility to aggregate, consolidate, and disaggregate existing program activities, most agencies generally linked their program activities to some level of a frequently complex planning hierarchy. These linkages were often presented in a performance plan that was separable from the agency's budget justification. As a result, plans frequently depicted a relationship between program activities and performance goals that, while consistent with the act's charge to cover program activities, proved difficult to translate into budgetary terms. However, 14, or 40 percent of the agencies we reviewed, built on these relationships to show how the funding from program activities would be allocated to achieve discrete sets of performance goals. These agencies, in effect, took the first step toward defining the performance consequences of budget decisions.

The Complexity of Budget and Planning Structures

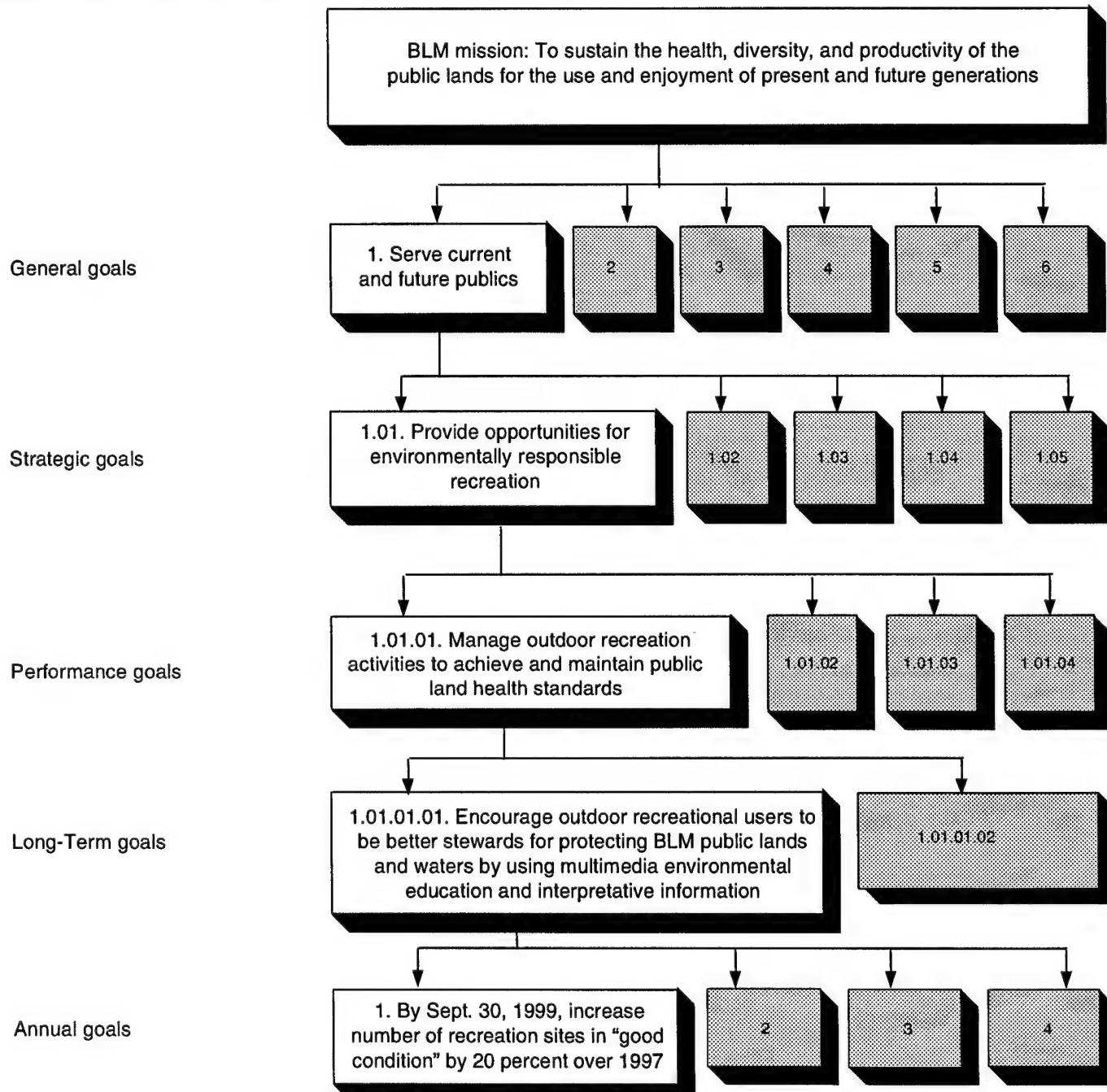
As we have previously reported, the federal government's budget account structure was not created as a single, integrated framework but rather generally developed over time to respond to specific needs.¹⁷ As a result, budget accounts and program activities within the accounts vary from agency to agency. This complexity was evident for agencies included in this review. For example, the number of budget accounts associated with a given agency's performance plan ranged from a low of 1 to a high of 118 for the agencies we reviewed, while the number of program activities to be covered by the plan ranged from 6 to 465. The median number of accounts for agencies that we reviewed was 9, and the median number of program activities was 32. Typically, program activity structures were unique not only to each of the agencies in our review, but also to each of the budget accounts within an agency. In only 2 agencies—EPA and the Department

¹⁷[Budget Account Structure: A Descriptive Overview \(GAO/AIMD-95-179, September 18, 1995\).](#)

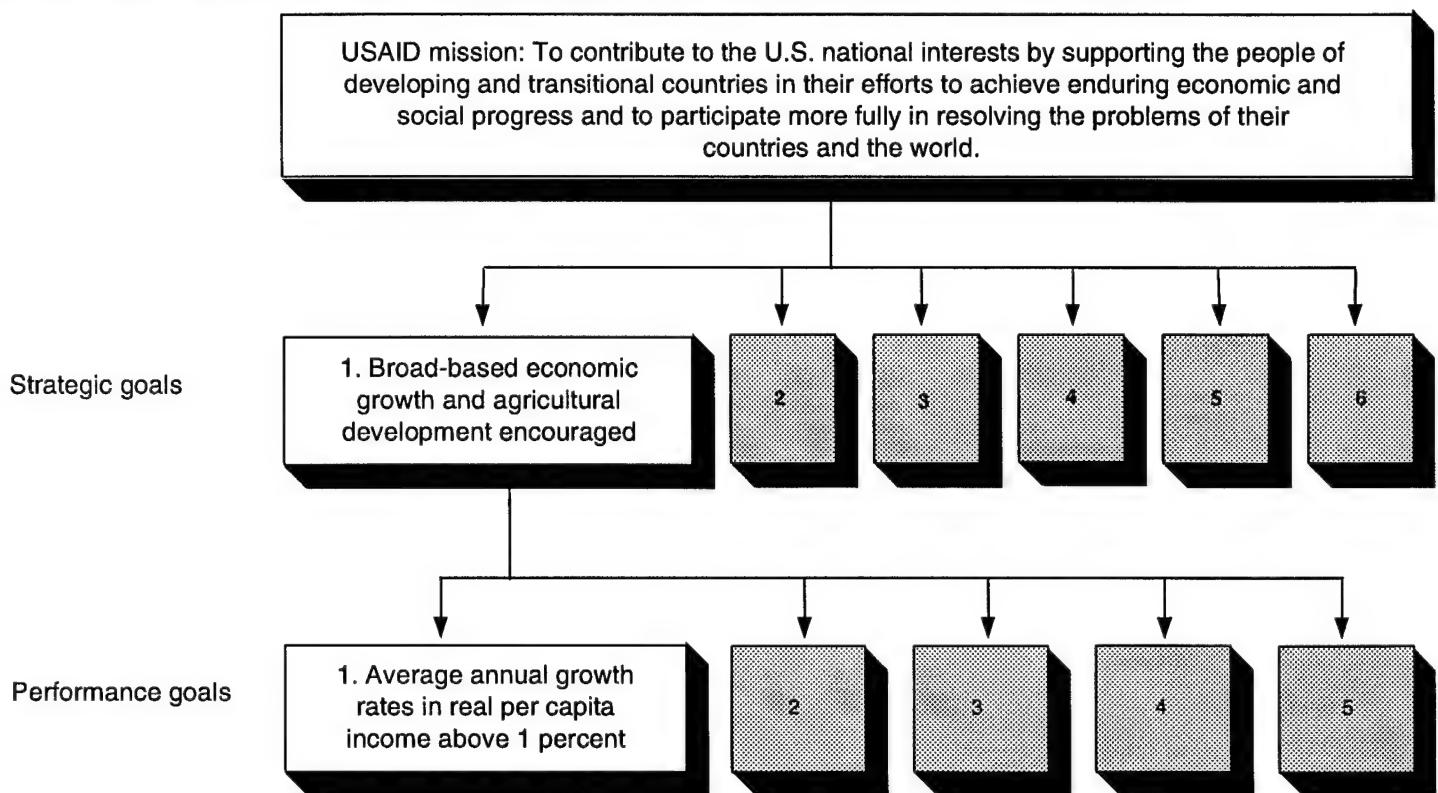
of Defense—were the same program activity titles repeated across all or groups of an agency's budget accounts.

Agencies' planning structures were similarly complex, comprised of widely varying numbers and layers of goals. The Results Act and OMB guidance give agencies flexibility in structuring strategic and annual performance goals. Annual performance goals are expected to measure progress in achieving longer term strategic goals. There is no required format or structure and no limitation on the number of goals that can be included in a performance plan. Our sample of performance plans presented a variety of planning structures and many different terms to describe those structures. Twenty-one of the 35 agencies we reviewed used a cascading hierarchy of goals to put their fiscal year 1999 performance in context—that is, these plans placed one or more layers of goals between their strategic and annual performance goals. For example, the Bureau of Land Management (BLM) plan contained a complex hierarchy of goals: 5 "General Goals," supported by 17 "Strategic Goals," that were supported by 43 "Performance Goals," 47 "Long-Term Goals," and, finally, 64 fiscal year 1999 "Annual Goals." Figure 2 shows the numbers and layers of goals associated with one of BLM's five general goals. The remaining 14 agencies, however, had fewer layers of goals. For example, the U.S. Agency for International Development's (USAID) six strategic goals were supported directly by performance goals with fiscal year 1999 targets. Figure 3 presents the performance goals associated with one of USAID's strategic goals.

Figure 2: BLM's Fiscal Year 1999 Performance Plan Presents Many Goal Layers



Source: GAO analysis based on BLM's fiscal year 1999 performance plan.

Figure 3: USAID's Fiscal Year 1999 Performance Plan Links Strategic Goals Directly to Performance Goals

Source: GAO analysis based on USAID's fiscal year 1999 performance plan.

To analyze these disparate planning structures, we developed and used a common framework that defined two layers of goals above the annual performance goals stated in the performance plans: (1) strategic goals, to reflect the first goal layer under an agency's mission statement and (2) strategic objectives, to reflect the next subordinate level of goals under strategic goals.¹⁸ We found that, quantifying just these two layers, most agency plans involved relatively complex presentations. The number of strategic goals in plans we reviewed ranged from 1 to 47, with a median of 5. Just over half of the agencies in our review placed an intervening layer of strategic objectives between strategic and performance goals. In plans

¹⁸For our definitions of strategic goal and strategic objective, see characteristics six and seven in table 1.2 of appendix I.

where strategic objectives were used, the number of strategic objectives ranged from 5 to 122. Across our sample of agency plans, the median number of strategic objectives used was nine.

Variety of Approaches to Linking Budget and Planning Structures

The variety and complexity of agencies' planning and budget structures necessarily resulted in a range of approaches to present and link this information. However, across this range, two approaches predominated: 29 performance plans were presented separately from congressional budget requests, and 22 plans established complex linkages of multiple program activities related to multiple performance goals.

Although performance plans and budget requests—commonly referred to as justifications of estimates—are both transmitted to the Congress following the President's budget submission in February, most agencies kept their plans physically separated from their budget submissions, either as entirely separate documents or as separate components appended to the justifications.¹⁹ Only 6 of the 35 plans we reviewed had been fully integrated into the agency's budget justification (see appendix II).

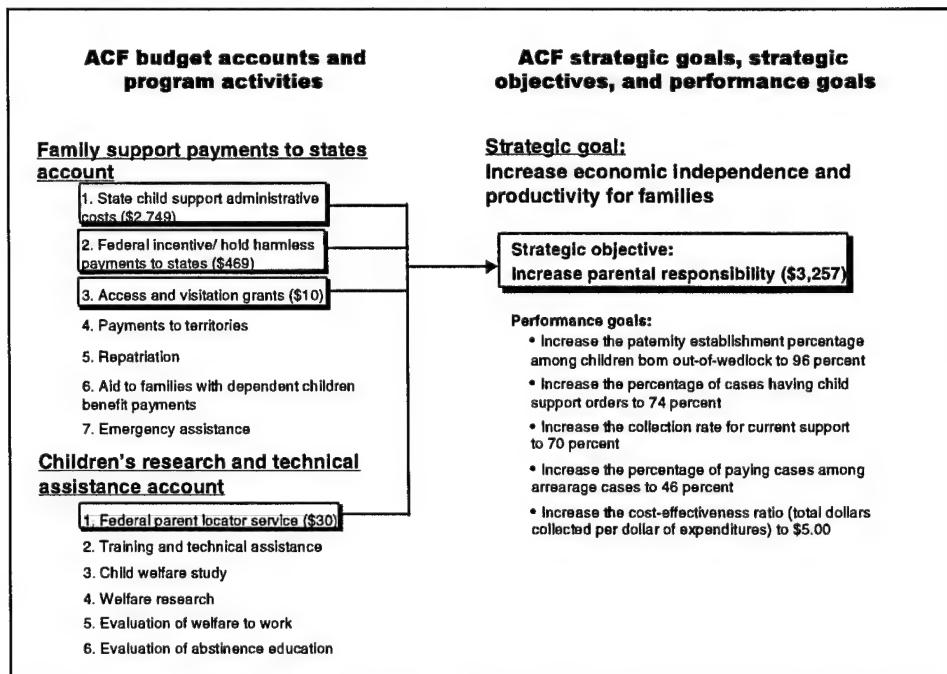
In addition to separating plans and budgets, almost all agencies retained the budget structure they had used in previous budget submissions. Only three agencies in our review—EPA, the Customs Service, and the Nuclear Regulatory Commission (NRC)—substantially changed their program activity structures, and all cited the Results Act as a factor in this change. Some others—such as the Bureau of Indian Affairs (BIA) and the Department of Veterans Affairs (VA)—noted that such changes were under consideration but proposed no changes in fiscal year 1999. For example, BIA stated that it would work with OMB and congressional committees to "simplify the budget format to mirror the strategic plan."²⁰ However, agencies very frequently took advantage of the act's flexibility to modify—that is, to aggregate, consolidate, or disaggregate—program activities in order to show linkages with performance goals. The extent to which this flexibility was used varied greatly. For example, figure 4 illustrates how the Administration for Children and Families (ACF) consolidated program activities before relating them to performance goals.

¹⁹See appendix I for a discussion of how we categorized the degree of integration between agencies' budget justifications and performance plans.

²⁰BIA fiscal year 1999 performance plan, p. 2.

Figure 5 illustrates how the Health Resources and Services Administration (HRSA) linked some performance goals to disaggregated program activities.

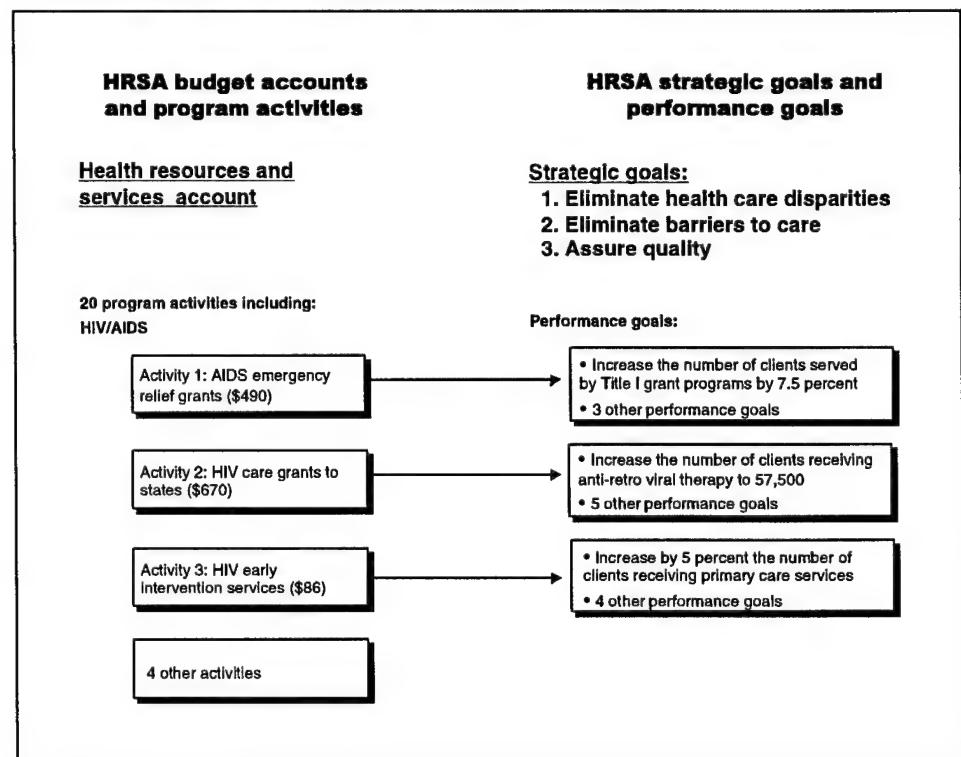
Figure 4: The Administration for Children and Families Uses Consolidation to Link Program Activities to Strategic Objectives



Note: Dollars in millions. Numbers may not total due to rounding.

Source: GAO analysis based on Administration for Children and Families fiscal year 1999 performance plan and [Budget of the United States Government Fiscal Year 1999—Appendix](#).

Figure 5: The Health Resources and Services Administration Uses Disaggregation to Link Program Activities to Sets of Performance Goals



Note: Dollars in millions.

Source: GAO analysis based on Health Resources and Services Administration's fiscal year 1999 performance plan and Budget of the United States Government Fiscal Year 1999—Appendix.

In addition to modifying or proposing changes to program activities, agencies in our review used three principal strategies to meet the Results Act's expectation that annual plans would "establish performance goals to define the level of performance to be achieved by a program activity."²¹

- About half (13) of the agencies that made linkages²² between performance goals and program activities in their performance plans established this connection at the relatively high level of strategic goals or objectives. For example, as shown in figure 4, ACF linked consolidated program activities to strategic objectives, which, in turn, were subsequently associated with performance goals.
- About the same number of agencies (14) defined direct linkages to performance goals. Figure 5 illustrates how HRSA linked disaggregated program activities directly to its performance goals.
- Three agencies—the National Aeronautics and Space Administration, the National Science Foundation, and VA—linked program activities to something other than a statement of strategic goals, strategic objectives, or performance goals. For example, the VA plan contained 17 strategic goals and 25 strategic objectives. However, instead of linking program activities directly to these goals and objectives, VA linked both its program activities and performance goals to its 10 business lines. The business lines generally represented different agency functions such as medical care and education.

As the above discussion indicates, regardless of the strategy used, most agencies ended with the same basic relationship—many program activities were related to many performance goals (see appendix II). These imprecise, "many-to-many" relationships frequently resulted from agencies' linking aggregated or consolidated program activities with strategic goals or other groupings of performance goals. For example, in figure 4, ACF consolidated program activities and linked them to the group of performance goals associated with a strategic objective, creating a many-to-many relationship between program activities and performance goals. In contrast, eight plans used a more direct and simple approach—typically linking a single program activity with multiple performance goals. Figure 5

²¹31 U.S.C. 1115(a)(1).

²²In addition, we could not determine linkages between program activities and performance goals from information provided in the performance plans of the following 5 agencies: the Department of Defense, the Immigration and Naturalization Service, the National Institutes of Health, the Rural Housing Service, and the Social Security Administration.

shows that HRSA linked a single disaggregated program activity to multiple performance goals.

While 30 of 35 plans defined some relationship between program activities and performance goals, 16 of these did not build on that relationship by showing how the funding from program activities would be allocated to discrete sets of performance goals.

- Ten of these 16 plans did not present funding levels for any set of performance goals in their performance plans.
- Six of these 16 plans presented funding levels for some set of performance goals without explaining how those funding levels had been derived from program activities in their budget requests.

However, 14 agency plans, or 40 percent of those included in our review, both identified the funding for program activities and explained how that funding would be allocated to a discrete set of performance goals.²³ In effect, these 14 plans, which will be discussed more fully in the next section, took the first step in defining the performance consequences of budget decisions.

Funding Was Allocated to Performance Under a Variety of Conditions But Using Some Common Approaches

Our review of selected fiscal year 1999 performance plans indicated that agencies with budget and planning structures of widely varying complexity were able to develop approaches toward achieving a fundamental purpose of the Results Act—clarifying the relationship between resources and results. Figure 6 lists the 14 agencies in our review that allocated program activity funding to performance goals in their performance plans. We found that some of the approaches that these agencies used, alone or in combination, were more frequently associated with plans that linked program activity funding to performance goals. For example, agencies that (1) established simple relationships between program activities and performance goals or (2) fully integrated budget justifications and performance plans were significantly²⁴ more likely to allocate program activity funding to performance goals. In addition, each of the three

²³The set of goals ranged in size and scope. For example, some of these plans presented allocations of funding to strategic goals or objectives, which represented discrete sets of performance goals.

²⁴When "significant" is used in this report, we are referring to statistical significance at or around the 95 percent confidence level. This significance means that we can be 95 percent certain that the association we find in our sample is not due to chance or random variation.

agencies that changed their budget structures to align them with their planning structures made these allocations. Conversely, plans characterized by imprecise, many-to-many relationships between performance goals and program activities and plans presented separately from budget justifications generally did not present such allocations.

Figure 6: Agencies Allocating Program Activity Funding to Performance Goals in Fiscal Year 1999 Annual Performance Plans

<ul style="list-style-type: none">• Department of Energy• Customs Service• Environmental Protection Agency• Food and Nutrition Service• Internal Revenue Service• Nuclear Regulatory Commission• Small Business Administration	<ul style="list-style-type: none">• Administration for Children and Families• Employment and Training Administration• Federal Bureau of Investigation• Health Resources and Services Administration• National Aeronautics and Space Administration• Office of Personnel Management• U. S. Agency for International Development
--	--

Source: GAO analysis.

Allocations Were Made Within a Variety of Planning and Budgeting Structures But Alignment of These Structures Was Significant

Our review generally found few differences in the budget structures of agencies that allocated program activity funding to performance goals and those that did not. For example, the number of an agency's accounts or program activities was not significantly related to whether a plan presented funding allocations for performance goals. As table 1 shows, for example, the median number of accounts and program activities was nearly the same for agencies that did allocate program activity funding to performance goals and for those that did not.

Table 1: Complexity of Budget Structure Was Not Significant in Allocating Funding to Performance Goals

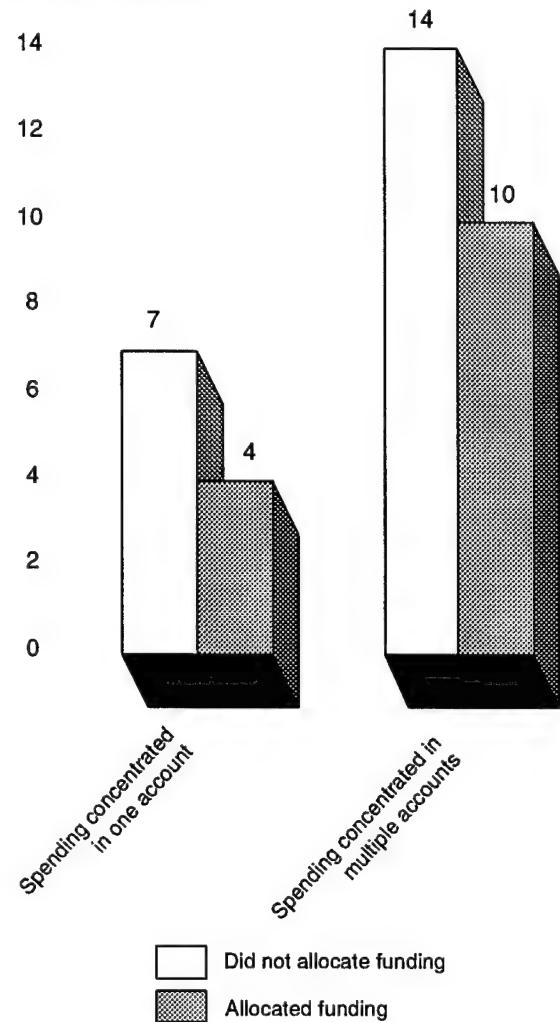
	Low	High	Median
Agencies that allocated funding			
Number of accounts	2	33	7
Number of program activities	6	119	32
Agencies that did not allocate funding			
Number of accounts	1	118	10
Number of program activities	9	465	32

Source: GAO analysis.

We also considered whether plans that allocated program activity funding to performance goals were more frequently associated with agencies having spending concentrated in one account. To determine if concentration of spending was a significant factor, we calculated the number of agencies for which 75 percent or more of requested spending was associated with a single account. Again, no significant relationship was observed (see figure 7). Four, or 36 percent, of the agencies with spending concentrated in one account allocated program activity funding to performance goals. Ten, or 42 percent, of the agencies with spending concentrated in multiple accounts allocated program activity funding to performance goals.

Figure 7: Concentration of Requested Spending Was Not Significant in Allocating Funding to Performance Goals

Number of agencies

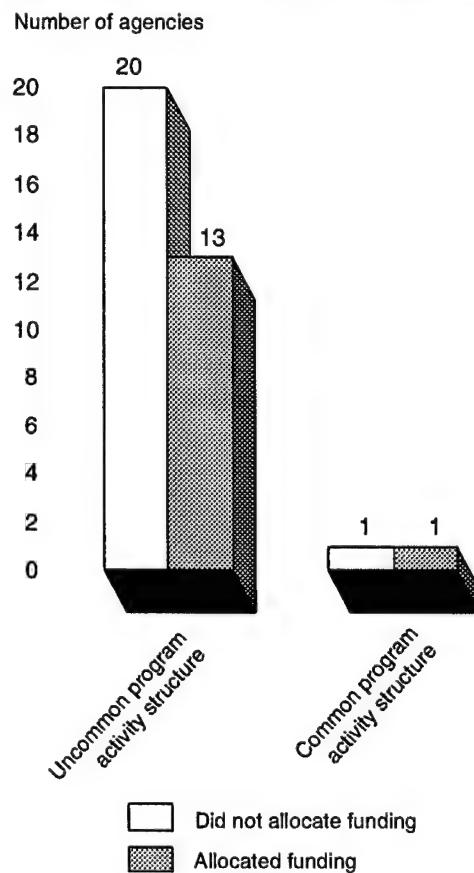


Source: GAO analysis.

Similarly, the complexity of an agency's program activity structure was not a significant factor in allocating funding to performance goals. We considered whether a simpler program activity structure—that is, one in which program activity titles were repeated across budget accounts—was more frequently associated with allocating funding to performance goals. We found no significant difference in the number of agencies allocating

program activity funding to performance goals. Thirteen, or 39 percent of the 33 agencies without common program activity structures, allocated program activity funding to performance goals (see figure 8). Although only two agencies—EPA and the Department of Defense—exhibited common program activity structures, EPA presented such an allocation and DOD did not.

Figure 8: Commonalities Within Agencies' Program Activity Structures Were Not Significant In Allocating Funding to Performance Goals

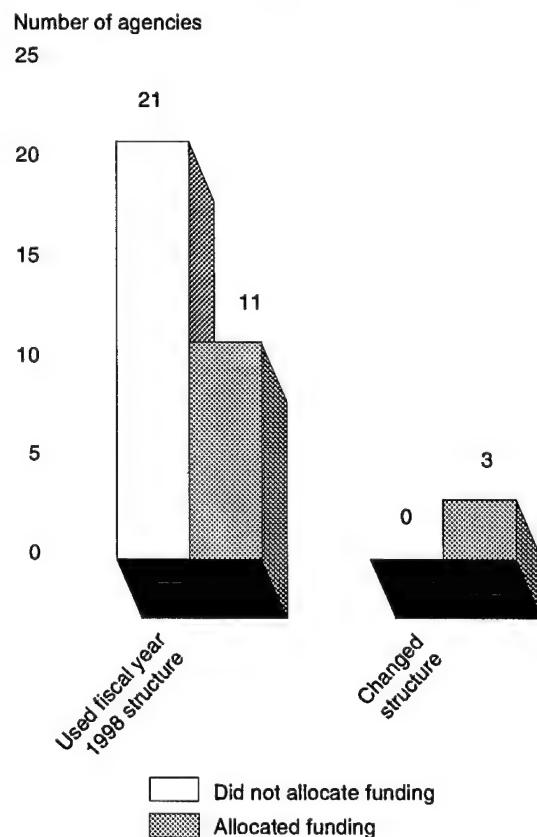


Source: GAO analysis.

Although a particular account and program activity structure was generally not associated with allocating funding to performance goals, there was one significant but perhaps unsurprising exception. All three of the agencies

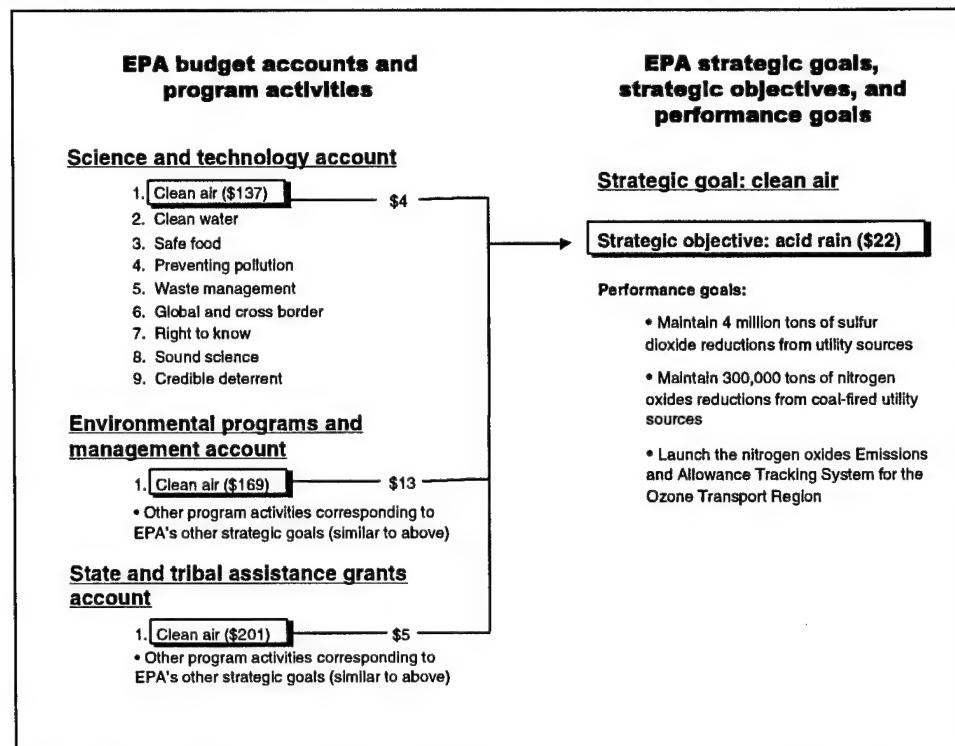
that proposed changing their program activities to be consistent with their planning structures—EPA, NRC, and the Customs Service—allocated funding to performance goals (see figure 9). For example, EPA proposed a uniform program activity structure across all of its accounts in which each program activity represented one of its strategic goals. Figure 10 illustrates how EPA used consolidation to allocate program activity funding to strategic objectives and their supporting performance goals.

Figure 9: Alignment of Budget and Planning Structures Was Significant for Allocating Funding to Performance Goals



Source: GAO analysis.

Figure 10: EPA Proposed Aligning Budget and Planning Structures



Note: Dollars in millions.

Source: GAO analysis based on EPA's fiscal year 1999 performance plan and [Budget of the United States Government Fiscal Year 1999—Appendix](#).

Fourteen agencies in our review that showed how program activities were allocated to performance goals did not appear to have any common structural elements in their performance plans. Differences in plan complexity—defined in terms of number and layers of goals—were not significant between agencies that allocated program activity funding to performance goals and those that did not. As indicated in table 2, the median number of strategic goals and objectives was the same or similar between these two groups of plans.

Table 2: Planning Structure Was Not a Significant Factor for Agencies That Allocated Program Activity Funding to Performance Goals

	Low	High	Median
Agencies that allocated funding			
Number of strategic goals	3	10	5
Number of strategic objectives	0	55	7
Agencies that did not allocate funding			
Number of strategic goals	1	47	5
Number of strategic objectives	0	122	10

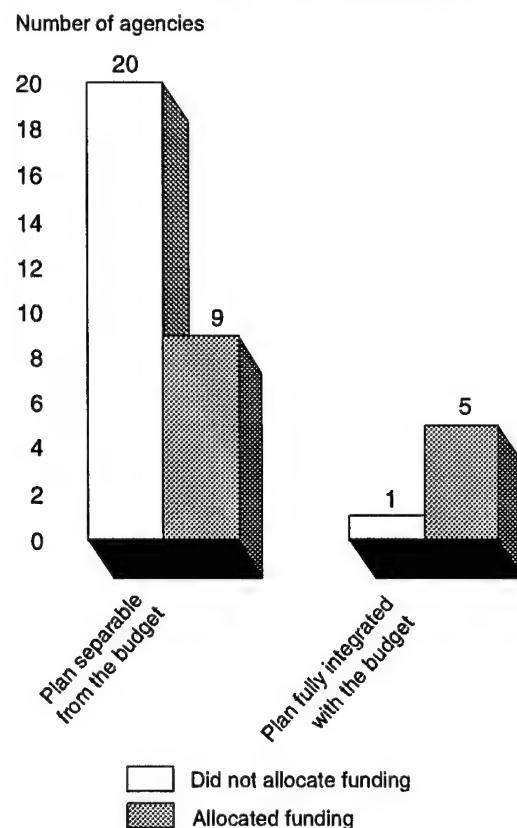
Source: GAO analysis.

Two Approaches to Linking Budget and Planning Structures Were Significant

Although the complexity of an agency's budget and planning structures generally was not significantly related to whether it linked program activity funding to performance goals, two approaches to linking these structures were. These approaches were (1) establishing simpler relationships between program activities and performance goals and (2) fully integrating budget justifications and performance plans. Whether used alone or in combination, these approaches were more frequently associated with agencies that were able to show the performance consequences of budget decisions.

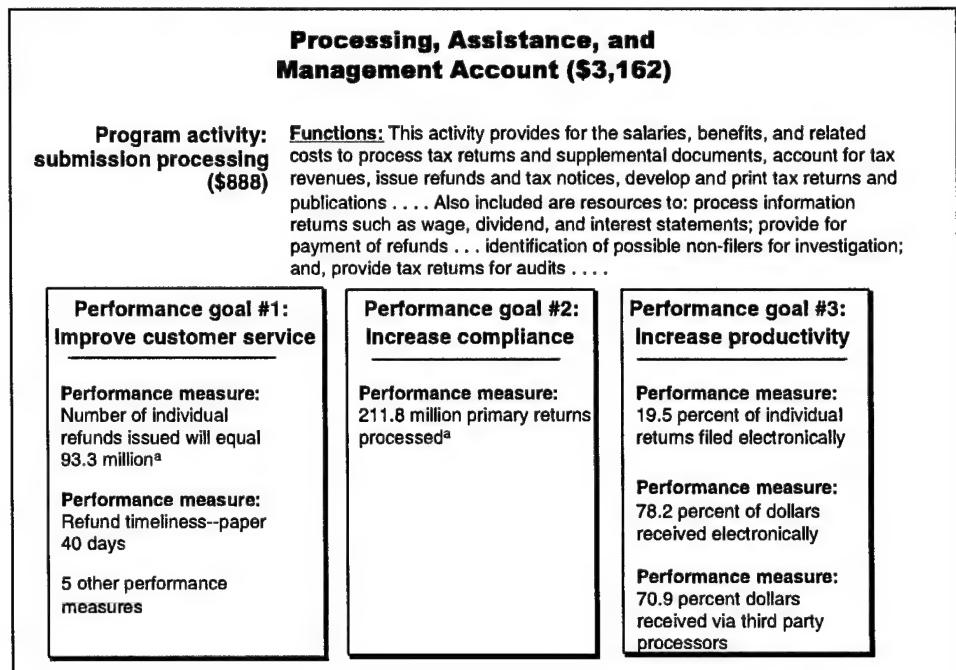
A significant difference in allocating program activity funding to performance goals existed between agencies in which the performance plan was integrated with the agency's budget justification and agencies in which the performance plan was not integrated. Agencies whose plans were fully integrated with the budget justification nearly always (five of six such plans) allocated program activity funding to performance goals (see figure 11). Conversely, about two-thirds, or 20 of the 29 agencies whose plans could be physically separated from the budget justification, did not allocate program activity funding to performance goals. For example, figure 12 shows how information traditionally contained in a budget justification, such as descriptions of accounts and their funding, was combined with performance information in the Internal Revenue Service's (IRS) integrated budget justification and performance plan.

Figure 11: Integrating Budget and Planning Documents Was Significant for Allocating Funding to Performance Goals



Source: GAO analysis.

Figure 12: The Internal Revenue Service Integrates Its Budget Justification and Performance Plan



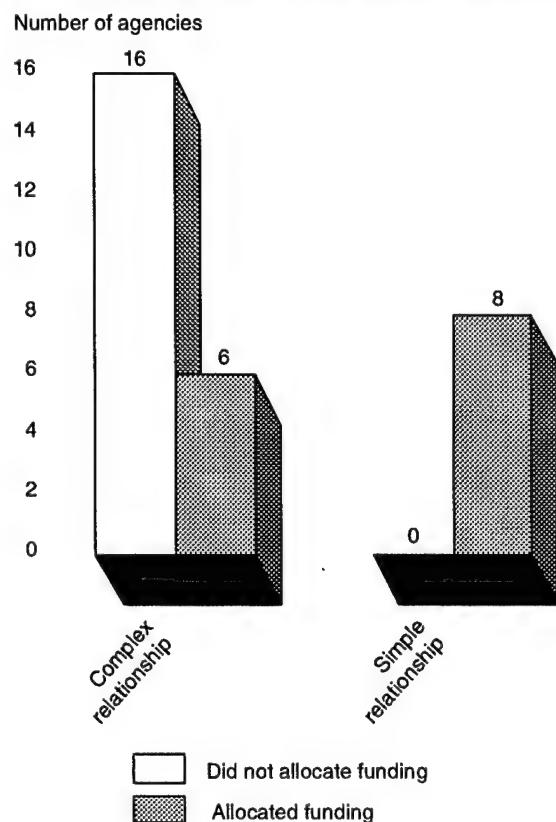
^aIRS noted that this is a projection for budget purposes and is not used in the agency's business review.

Note: Dollars in millions.

Source: GAO analysis based on the Internal Revenue Service's fiscal year 1999 performance plan.

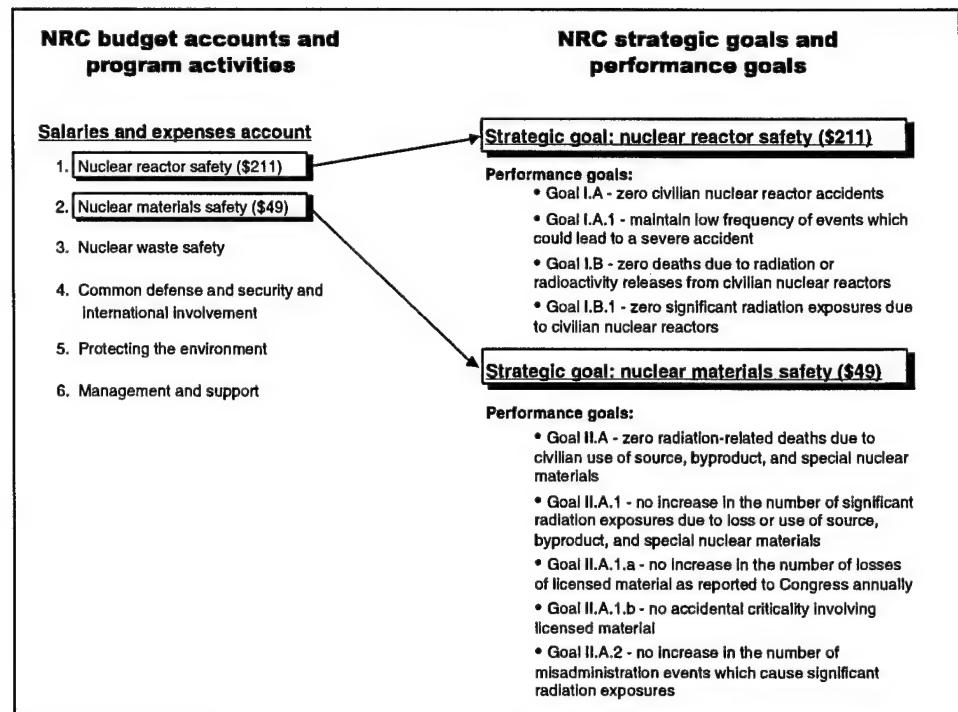
We also found that plans showing a simpler relationship between program activities and performance goals were significantly more likely to show how funding was allocated to performance goals (see figure 13). That is, in all agencies in which the relationship between program activities and performance goals could be characterized as one-to-many or many-to-one, program activity funding was allocated to performance goals. For example, figure 14 shows that the allocation of funding to performance goals in the NRC plan was essentially automatic because each of the agency's program activities generally align with a strategic goal and its supporting performance goals. However, where relationships were less precise—that is, when multiple program activities were related to multiple performance goals—allocations of program activity funding to performance goals were less common.

Figure 13: Simple Relationships Between Program Activities and Performance Goals Were Significant for Allocating Funding to Performance Goals



Source: GAO analysis.

Figure 14: The Nuclear Regulatory Commission Aligns Budget and Planning Structures to Create a Simple Relationship Between Program Activities and Performance Goals



Note: Dollars in millions.

Source: GAO analysis based on Nuclear Regulatory Commission's fiscal year 1999 performance plan and [Budget of the United States Government Fiscal Year 1999—Appendix](#).

As indicated by the agencies profiled in the figures above, approaches that were individually significant in allocating funding were often used in combination. In fact, 6 of the 14 plans that allocated program activity funding to performance goals used two or more of the approaches identified above. For example, of the three agencies that changed their program activity structures, two either presented simple relationships between program activities and performance goals or fully integrated their performance plans and budget justifications.

The 21 plans in our review that did not allocate funding to discrete sets of performance goals were also generally characterized by common features. These plans (1) did not reflect any significant change in the agency's account or program activity structures, (2) generally were separable from the justification of estimates, and (3) presented either no explicit

relationship or a many-to-many relationship between performance goals and program activities. These features were a hallmark of plans that did not inform users of the performance consequences of budget decisions.

First-Year Experiences Demonstrate Progress and Continued Challenges

Our review of selected fiscal year 1999 performance plans presents a mixed picture. Certainly, some agencies were able to develop informative approaches to connect budgetary resources to results. These approaches are addressing some of the challenges that have plagued performance budgeting efforts prior to the Results Act. They can also be seen as the first step toward achieving a key objective of the act—a clearer understanding of what is being achieved for what is being spent. Paralleling these changes is growth in the Congress' interest in performance information in its resource allocation and other oversight processes. Nevertheless, our review, as well as the delay of the performance budgeting pilots required by the act, indicates continuing challenges for achieving a clearer relationship between budgetary resources and results.

A Year of Progress in Connecting Resources to Results

The fiscal year 1999 budget process marked an important beginning in more clearly showing the performance consequences of budget decisions. As indicated in the previous section, executive branch agencies developed a variety of approaches to link their performance plans and budget requests. But equally important, the Congress also showed an awareness of Results Act implementation efforts and a clear interest in obtaining credible performance information during its appropriations and oversight processes.

Executive agencies have demonstrated that linking complex budget and planning structures demands adaptive approaches. The scope of the federal government's missions, the variety of its organizational models, and the breadth of its processes—all subject to a multifaceted congressional oversight environment—suggest that many approaches will be developed to more clearly allocate requested funding levels to performance goals. Our review found that agencies reflecting the heterogeneity of the federal government—from direct service agencies (e.g., IRS) to agencies principally involved in grant or loan making (e.g., USAID) to regulatory agencies (e.g., NRC)—began to link budgetary resources and results.

In the fiscal year 1999 performance plans, the agencies we reviewed developed several approaches to overcome a common problem of previous performance budgeting initiatives—planning structures and presentations

that were unconnected to budget structures and presentations. These approaches include:

- changing budget structures to more closely align with performance plans. Three agencies proposed new program activities within existing budget accounts to generally reflect the strategic goals of their performance plan. These proposals sometimes facilitated a relatively simple relationship between program activities and performance goals that helped make connections clear.
- integrating performance information with budget justifications. In some cases, this took the form of fully integrating the performance plan with the agency's budget justification, as in the IRS, the Customs Service, and the Federal Bureau of Investigation. Where plans were not fully integrated with budget justifications, some agencies used the justification to provide more detailed information on goals contained in their performance plan. For example USAID's fiscal year 1999 budget justification contained "strategic support objectives" and "special objectives." These objectives appear to further describe and support the performance goals expressed in USAID's separate performance plan.
- crosswalking performance plans with budget structures. For example, ACF devised a crosswalk to identify the contribution of its over 60 program activities to its 10 strategic objectives (see figure 4 for an excerpt from this crosswalk). The crosswalk identifies funding for accounts or program activities and—using consolidation and aggregation—relates an account or program activity to a strategic objective, and consequently, to the objective's set of discrete performance goals. Account or program activity funding levels are summed to provide a proposed funding level for each strategic objective.

As executive agencies developed these approaches and presented their fiscal year 1999 budget submissions, the Congress also indicated an increasing interest in credible performance information to inform the resource allocation process.²⁵ We reviewed fiscal year 1999 appropriations hearings and reports for the agencies in our review that allocated program

²⁵The Congressional Research Service recently documented the growth of congressional interest in performance information in its memorandum, "Performance Measure Provisions in the 105th Congress: Analysis of a Selected Compilation," dated December 17, 1998. This analysis concluded "while the number of public laws with performance measure provisions nearly doubled from the 104th to the 105th Congresses, the number of committee reports containing performance measure provisions. . .nearly tripled."

activity funding to performance goals and observed that members of the Congress often made specific reference to the performance information contained in the agency's justification and/or performance plan. Some notable examples include the following.

- ACF officials were questioned as to whether a 4 percent increase in children exiting foster care through reunification justified the appropriation being sought for these activities.²⁶
- U.S. Customs Service officials were asked how the appropriations committee should evaluate performance and resource requirements for Customs' marine mission, given an apparent lack of measures for its marine enforcement program.²⁷
- NRC officials were asked what performance measures would be used to justify U.S. participation and funding in international nuclear safety programs and how requested budget increases were related to NRC's mission.²⁸
- Food and Nutrition Service officials presented data on the number of meals being served in the school lunch and breakfast programs and were asked how much additional budgetary resources would be needed to serve all eligible children.²⁹
- The Conference Report on HUD's Fiscal Year 1999 Appropriations directed the agency to revise its performance plan to incorporate measurable goals and outcomes for providing housing vouchers and certificates to assist families in transitioning from welfare to work.³⁰
- A House Subcommittee on Appropriations was unwilling to recommend funding for a request for community-based technology centers in part

²⁶Departments of Labor, Health and Human Services, Education and Related Agencies for Fiscal Year 1999, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 105th Congress, 2d Sess., Pt. 2, p. 776.

²⁷Treasury, Postal Service, and General Government Appropriations for Fiscal Year 1999, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 105th Congress, 2d Sess., Pt. 1, p. 490.

²⁸Energy and Water Development Appropriations for Fiscal Year 1999, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 105th Congress, 2d Sess., Pt. 5, p. 1842.

²⁹Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations for Fiscal Year 1999, Hearings before a Subcommittee of the Committee on Appropriations, House of Representatives, 105th Congress, 2d Sess., Pt. 6, p. 399.

³⁰Making Appropriations for the Department of Veterans Affairs and Housing and Urban Development... for the Fiscal Year Ending September 30, 1999, Conference Report, Committee on Appropriations, House of Representatives, H. Rpt. No. 769, 105th Cong. 2d Sess. p. 237 (1998).

because specific performance measures for this new program were not presented.³¹

- The Treasury and General Government Appropriations Act of 1999 stated that the Office of National Drug Control Policy could not obligate funds provided to continue its national media campaign until it submitted the evaluation and results of the campaign.³²

Challenges Facing Future Performance Budgeting Efforts

Deliberations on agencies' appropriations also indicate that making effective linkages between budget program activities and performance goals is one of many challenges that need to be addressed for performance information to be used in the budget process. Members of the Congress also questioned agencies about why goals were not more results-oriented and what steps were being taken to coordinate activities with other agencies. For example, Office of Personnel Management officials were asked if the agency's performance plan could identify measures to help determine the agency's progress toward a result of recruiting and retaining the federal workforce required for the 21st century. Members of the Congress were also concerned about agencies' use of program evaluation and other techniques to ensure the validity and reliability of performance data. ACF officials were asked about their approach for evaluating the academic success of Head Start preschool participants after those students leave the program.

These concerns demonstrate that agencies also need to adopt a broader agenda for improving performance plans that includes focusing on results, defining clear strategies, and improving their capacity to gather and use performance data. Translating the use of agency resources into concrete and measurable results will be a continual challenge that will require both time and effort on the part of the agency. The uneven pace of progress across government is not surprising; agencies are in the early years of undertaking the changes that performance-based management entails. Although some agencies, as indicated in our review, began to show the performance consequences of budget decisions, improvements can be made in the clarity and completeness of linkages between program activities and performance goals. Agencies must also balance the scope

³¹ Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriation Bill, 1999, Committee on Appropriations, House of Representatives, H. Rpt. No. 635, 105th Cong. 2nd Sess. p. 145 (1998).

³² H.R. Conf. Rpt. No. 105-825 at 515 (1998).

and precision of funding estimates for performance goals with the usefulness of such estimates for resource allocation decisions. In addition, we believe weaknesses in the performance measurement systems described in agencies' fiscal year 1999 performance plans need to be addressed.³³

Linkages between plans and budgets must be supported by results-oriented and credible performance data to be useful. Our assessment³⁴ of agencies' fiscal year 1999 performance plans found most goals were focused on outputs, not outcomes. This presents a dilemma for future performance budgeting efforts. While outcome information is clearly useful for measuring performance, it may be more difficult to allocate funding to outcomes that are far removed from the inputs that drive costs. Allocating funding to outcomes presumes that inputs, outputs, and outcomes can be clearly defined and definitively linked. For some agencies, these linkages are unclear or unknown.³⁵ For example, agencies that work with state or local governments to achieve performance may have difficulty specifying how each of multiple agencies' funding contributes to an outcome.

In addition to understanding how actions affect outcomes, allocating funding to outcomes also requires an ability to understand how costs are related to outcomes. Agencies are noting the importance of cost accounting and other management systems for success in allocating funding to performance.³⁶ For example, the Department of Housing and Urban Development's (HUD) fiscal year 1999 performance plan acknowledged that the agency "has no mechanism for tracking resources as they are applied to performance measures."³⁷ The plan noted that HUD

³³For additional discussion, see Major Management Challenges and Program Risks: A Governmentwide Perspective (GAO/OCG-99-1, January 1999), GAO/GGD/AIMD-98-228, September 8, 1998, and GAO/GGD/AIMD-99-69, February 26, 1999.

³⁴See GGD/AIMD-98-228, September 8, 1998.

³⁵Program evaluation is critical to understanding and isolating an agency's impact on outcomes. For a discussion of performance measurement challenges, see Managing for Results: Measuring Program Results That Are Under Limited Federal Control (GAO/GGD-99-16, December 11, 1998), Program Evaluation: Agencies Challenged by New Demand for Information on Program Results (GAO/GGD-98-53, April 24, 1998), and Managing for Results: Analytic Challenges in Measuring Performance (GAO/HEHS/GGD-97-138, May 30, 1997).

³⁶Our recent Performance and Accountability series cited developing cost accounting systems as a key challenge in supporting the Results Act. See GAO/OCG-99-1, January 1999.

³⁷HUD fiscal year 1999 performance plan, p. 6.

intends to develop a system that "will allow the Department to identify, justify, and match resource requirements for effective and efficient program administration and management."³⁸

Agencies are expected to develop such systems as they implement managerial cost accounting standards developed by the Federal Accounting Standards Advisory Board (FASAB).³⁹ These standards require that agencies develop and implement cost accounting systems that can be used to relate the full costs of various programs and activities to performance outputs. Although these standards were originally to become effective for fiscal year 1997, the Chief Financial Officers (CFO) Council—an interagency council of the CFOs of major agencies—requested the effective date be delayed for 2 years due to shortfalls in cost accounting systems. As FASAB recommended, the effective date was extended by 1 year, to fiscal year 1998, with a clear expectation that there would be no further delays. However, developing the necessary approach to gather and analyze needed program and activity-level cost information will be a substantial undertaking. While there is a broad recognition of the importance of doing so, for the most part agencies have just begun this effort.

As discussed earlier in this report, agencies' difficulties in developing performance planning and measurement and cost accounting systems were cited by OMB in its 1997 decision to delay the performance budgeting pilots required by the Results Act. To further discussion of those pilots, OMB recently suggested possible formats and time frames for the pilots in a September 1998 paper sent to federal agencies. In that discussion paper, OMB noted that pilot projects would not be designated unless they could "fairly test the [Results Act's] concept of performance budgeting," which it described as "the application of multi-variate or optimization analysis to budgeting." The paper described three analytical alternatives that could be tested involving performance tradeoffs (1) in the same program with changes in program funding, (2) in the same program with no change in

³⁸HUD fiscal year 1999 performance plan, pp. 6-7.

³⁹In October 1990, the nine member FASAB was established by the Secretary of Treasury, the Director of the OMB, and the Comptroller General of the United States to consider and recommend accounting standards to address the financial and budgetary information needs of the Congress, executive agencies, and other users of federal financial information. Once FASAB recommends accounting standards, the Secretary of the Treasury, the Director of OMB and the Comptroller General decide whether to adopt the recommended standards. If they are adopted, the standards are published as Statements of Federal Financial Accounting Standards by OMB and GAO.

total program funding, or (3) in several programs with shifts in intra-agency funding between these programs.

At present, OMB has no definitive plans for proceeding with the performance budgeting pilots. OMB solicited agencies' comments on the discussion paper and on their capability to produce the alternative budgets suggested in the committee report accompanying the Results Act.

According to OMB, no agency has as yet volunteered to participate in the pilots. In its discussion paper, OMB stated that "the absence of designated pilots or having fewer designations than required would be an indication of agency readiness to do performance budgeting, and would be discussed in the OMB report to Congress."

These developments reflect some of the broader tensions involved in linking planning and budgeting structures. On one hand, performance plans need to be broad and wide-ranging if they are to articulate the missions and outcomes that agencies seek to influence. Often these plans will include goals that the agency can only influence indirectly because of responsibilities assigned to other actors, such as state and local governments. On the other hand, budget structures have evolved to help the Congress control and monitor agency activities and spending and, as such, are geared more to fostering accountability for inputs and outputs within the control of agencies.

Performance budgeting poses the daunting task to agencies of discovering ways to address these competing values that are mutually reinforcing, not mutually exclusive. Strategies for bringing planning and budgeting structures together must balance both sets of values. For example, some agencies might let their planning structures be the starting point for making connections and seek to crosswalk broad overarching goals to their many program activities. This approach is consistent with a results orientation but can obscure the impact of specific funding decisions. Other agencies might decide to use the budget structure as their starting point and integrate performance information into formats familiar and useful for congressional oversight. Although this approach may be helpful in focusing on the performance consequences of budget decisions, such strategies risk confining performance information to structures that may be too limited to fully address the broad mission and outcomes of the agency.

Conclusions

The fiscal year 1999 annual performance plans—the first called for under the Results Act—showed potential for providing valuable information that

can be used to better program performance. However, the linkage between requested funding and performance goals is just one of many elements that need improvement for these plans to be useful for improving program performance. Top management within agencies must provide the consistent leadership necessary to direct the needed management changes and to ensure momentum is maintained. Ultimately, performance-based management should become an integral part of an agency's culture. The transition process must include proven "change management" approaches to be successful and sustained. In addition, congressional use of results-oriented program performance and cost information in its decision-making about federal policies and programs will also spur agencies' efforts to implement the statutory framework by sending the unmistakable message to the agencies that the Congress remains serious about performance-based management and accountability.

As we have noted in a previous report, one of the Results Act's most conspicuous and useful features is its reliance on experimentation.⁴⁰ This is certainly true regarding performance budgeting. The act calls for one form of performance budgeting by requiring that performance goals from an agency's annual performance plan cover the program activities of the agency's budget request while giving agencies flexibility in how this linkage is made. This requirement, when coupled with OMB's guidance that plans reflect the funding levels being applied to achieve performance goals, constitutes the first governmentwide expectation to directly associate budgetary resources with expected results. In addition, the act also requires pilot projects to test a specific form of performance budgeting that presents varying levels of funding for varying levels of performance. The committee report accompanying the act noted that "this pilot approach is best because, while performance budgeting promises to link program performance information with specific budget requests, it is unclear how best to present that information and what the results will be."⁴¹

The fiscal year 1999 performance planning and budgeting cycle produced a useful experimentation in connecting planning and budgeting structures that accommodated unique federal missions and structures. Some, but not all of the agencies we reviewed, began to develop useful linkages. Moreover, challenges in performance planning and measurement and

⁴⁰GAO/AIMD-97-46, March 27, 1997.

⁴¹S. Rpt. No. 103-58, p. 19.

deficiencies in cost accounting systems continue to confront federal agencies. OMB has already cited these problems as the reasons why performance budgeting pilot projects were not being initiated. The progress that has been made and the challenges that persist underscore the importance of developing a specific agenda to ensure continued progress in better showing the performance consequences of budgetary decisions.⁴²

The original goal for the act's performance budgeting pilot projects was twofold: to allow OMB and agencies to develop experience and capabilities towards realizing the potential of performance budgeting, and to provide OMB with a basis for reporting to the Congress on next steps and needed changes. Although OMB stated in 1997 that agencies' financial management systems were not capable of the specific form of performance budgeting called for in the act, our review demonstrates that some agencies were able to develop approaches to make perhaps a more basic, but still useful, connection between proposed spending and performance. These fiscal year 1999 efforts to link performance goals and program activity funding essentially constitute a first step toward achieving the intent of the performance budgeting pilots. They also provide a baseline from which OMB could assess future progress and determine what changes, if any, may be needed to the act and federal budget processes.

In addition to its longstanding responsibilities regarding the formulation, review, and presentation of the President's annual budget requests, OMB is the lead agency for overseeing a framework of recently enacted financial, information resources, and performance planning and measurement reforms designed to improve the effectiveness and responsiveness of federal agencies.⁴³ As such, OMB is well-situated to assess (1) the practicality of performance budgeting pilots as currently defined in the law, (2) agency approaches and continuing challenges to linking budgetary resources and performance goals, and (3) options to encourage progress in subsequent planning and budgeting cycles.

⁴²In Managing for Results: An Agenda to Improve the Usefulness of Agencies' Annual Performance Plans (GAO/GGD/AIMD-98-228, September 8, 1998), we recommended that OMB develop an agenda to address five key opportunities for improving performance plans, including showing the performance consequences of budgetary decisions.

⁴³The Results Act: Observations on the Office of Management and Budget's July 1997 Draft Strategic Plan (GAO/AIMD/GGD-97-169R, August 21, 1997).

Recommendation to OMB

In light of the indefinite delay of the performance budgeting pilots required by the Results Act and the experiences of agencies during the fiscal year 1999 performance planning and budgeting cycle, we recommend that the Director of OMB assess the approaches agencies use to link performance goals and program activities in the fiscal year 2000 performance plans. OMB's analysis, building on our review of fiscal year 1999 performance plans, should develop a better understanding of promising approaches and remaining challenges with respect to the concept of performance budgeting within the federal government. OMB's analysis should address, for example:

- the extent of agencies' progress in associating funding with specific or sets of performance goals,
- how linkages between budgetary resources and results can be made more useful to the Congress and to OMB,
- what types of pilot projects might be practical and beneficial, and
- when and how those pilot projects would take place.

On the basis of this analysis, we recommend that OMB work with agencies and the Congress to develop a constructive and practical agenda to further clarify the relationship between budgetary resources and results, beginning with specific guidance for the preparation of agencies' fiscal year 2001 plans. We further recommend that this analysis and the resulting agenda become the foundation for OMB's report to the Congress in March 2001, as currently required by the Results Act, on the feasibility and advisability of including a performance budget as part of the President's budget and on any other needed changes to the requirements of the act.

Agency Comments

On February 10, 1999, we met with the Deputy Director for Management and other OMB officials to discuss this report and our recommendations; on February 19, 1999, we provided a draft of this report to OMB for comment. At both our meeting and subsequently, OMB provided technical comments orally, which we have incorporated as appropriate. On March 26, 1999, OMB informed us they would have no written comments on this draft.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to Senator Joseph

Lieberman, the Ranking Minority Member of your committee; other appropriate congressional committees; and The Honorable Jacob Lew, Director, Office of Management and Budget. We will also make copies available to others on request.

Major contributors to this report are listed in appendix III. Please contact me on (202) 512-9573 if you or your staff have any questions.

Sincerely yours,

A handwritten signature in black ink that reads "Paul L. Posner". The signature is fluid and cursive, with "Paul" on the first line and "L. Posner" on the second line.

Paul L. Posner
Director, Budget Issues

B-282035

Contents

Letter	1
Appendix I Objectives, Scope, and Methodology	42
Appendix II Summary of Our Analysis	55
Appendix III Major Contributors to This Report	57
<hr/> Tables	
Table 1: Complexity of Budget Structure Was Not Significant in Allocating Funding to Performance Goals	18
Table 2: Planning Structure Was Not a Significant Factor for Agencies That Allocated Program Activity Funding to Performance Goals	23
Table I.1: Plans Reviewed	43
Table I.2: Characteristics and Associated Classification Frameworks	45
<hr/> Figures	
Figure 1: Using the Results Act's Flexibility to Align the Annual Performance Plan With the Budget Account and Program Activity Structure	6
Figure 2: BLM's Fiscal Year 1999 Performance Plan Presents Many Goal Layers	10
Figure 3: USAID's Fiscal Year 1999 Performance Plan Links Strategic Goals Directly to Performance Goals	11
Figure 4: The Administration for Children and Families Uses Consolidation to Link Program Activities to Strategic Objectives	13
Figure 5: The Health Resources and Services Administration Uses Disaggregation to Link Program Activities to Sets of Performance Goals	14
Figure 6: Agencies Allocating Program Activity Funding to Performance Goals in Fiscal Year 1999 Annual Performance Plans	17

Contents

Figure 7: Concentration of Requested Spending Was Not Significant in Allocating Funding to Performance Goals	19
Figure 8: Commonalities Within Agencies' Program Activity Structures Were Not Significant in Allocating Funding to Performance Goals	20
Figure 9: Alignment of Budget and Planning Structures Was Significant for Allocating Funding to Performance Goals	21
Figure 10: EPA Proposed Aligning Budget and Planning Structures	22
Figure 11: Integrating Budget and Planning Documents Was Significant for Allocating Funding to Performance Goals	24
Figure 12: The Internal Revenue Service Integrates Its Budget Justification and Performance Plan	25
Figure 13: Simple Relationships Between Program Activities and Performance Goals Were Significant for Allocating Funding to Performance Goals	26
Figure 14: The Nuclear Regulatory Commission Aligns Budget and Planning Structures to Create a Simple Relationship Between Program Activities and Performance Goals	27
Figure I.1: Illustration of Characteristic 9	48
Figure I.2: Illustration of Characteristic 10	50

Abbreviations

ACF	Administration for Children and Families
BIA	Bureau of Indian Affairs
BLM	Bureau of Land Management
CFO	Chief Financial Officer
EPA	Environmental Protection Agency
HRSA	Health Resources and Services Administration
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
NRC	Nuclear Regulatory Commission
OMB	Office of Management and Budget
USAID	U.S. Agency for International Development
VA	Department of Veterans Affairs

Objectives, Scope, and Methodology

Our September 1998 report on agencies' first performance plans establishes an agenda for improving several elements of agency plans, including showing the performance consequences of budget decisions. Following the issuance of that report, the Chairman of the Senate

Committee on Governmental Affairs asked us to examine in more detail how the plans linked expected performance with budget requests. To do this, our objectives were to

- describe agencies' approaches to linking performance goals and budgetary resources,
- examine characteristics that might be associated with different approaches to linkage, and
- identify implications for future efforts to clarify the relationship between budgetary resources and results.

Scope

To address our objectives, we selected 35 fiscal year 1999 performance plans for review from departments and agencies¹ covered by the CFO Act. We generally focused on bureau-level plans for each department but limited our review to the three largest bureaus with discretionary spending over \$1 billion and/or the two largest bureaus.² Table I.1 lists the agencies whose plans we reviewed.

¹In this report, we refer to a performance plan, whether of a department, agency, or bureau, as an "agency plan."

²Discretionary spending levels were used as an indication of the bureau's relevancy to appropriators since discretionary funding is affected by appropriations actions.

Table I.1: Plans Reviewed

1. Administration for Children and Families (Department of Health and Human Services)
2. Bureau of Indian Affairs (Department of Interior)
3. Bureau of Land Management (Department of Interior)
4. Department of Commerce
5. Customs Service (Department of the Treasury)
6. Department of Defense
7. Department of Education
8. Employment and Training Administration (Department of Labor)
9. Department of Energy
10. Environmental Protection Agency
11. Federal Aviation Administration (Department of Transportation)
12. Federal Bureau of Investigation (Department of Justice)
13. Federal Emergency Management Agency
14. Federal Highway Administration (Department of Transportation)
15. Federal Prison System (Department of Justice)
16. Food and Nutrition Service (Department of Agriculture)
17. Forest Service (Department of Agriculture)
18. General Services Administration
19. Health Resources and Services Administration (Department of Health and Human Services)
20. Department of Housing and Urban Development
21. Immigration and Naturalization Service (Department of Justice)
22. Internal Revenue Service (Department of the Treasury)
23. National Aeronautics and Space Administration
24. National Institutes of Health (Department of Health and Human Services)
25. National Park Service (Department of Interior)
26. National Science Foundation
27. Nuclear Regulatory Commission
28. Occupational Safety and Health Administration (Department of Labor)
29. Office of Personnel Management
30. Rural Housing Service (Department of Agriculture)
31. Small Business Administration
32. Social Security Administration
33. Department of State
34. U.S. Agency for International Development
35. Department of Veterans Affairs

Data Collection

To describe agencies' approaches to linking performance goals and budgetary resources, we identified 12 characteristics that could be used to describe agencies' planning and budgeting structures and the linkages between them. For each characteristic, we developed a classification framework for differentiating between plans based on that characteristic. These classification frameworks involved either straightforward counts of plan components (e.g., number of strategic goals) or judgments based on the content and structure of the plan. One staff member reviewed each plan and classified the plan on each characteristic. To ensure consistency in

judgments, another staff member also independently reviewed the plans and the assessment on each characteristic. Differences in judgments were addressed by having staff members jointly reevaluate the coding of the characteristic to resolve the difference. We then compiled our assessments on plan characteristics into a database that was used to profile agencies' first-year approaches to linking budgetary resources with results.

These characteristics generally fell into two groups: characteristics describing agencies' budget and planning structures (numbers 1 through 7 in table I.2), and characteristics describing agencies' approaches to linking these structures (numbers 8 through 12 in table I.2). Table I.2 presents additional detail on the characteristics used in this review.

Table I.2: Characteristics and Associated Classification Frameworks

Characteristic	Description
A. Characteristics describing budget and planning structures	
(1) Number of accounts	The number of budget accounts in the Appendix of the <u>Budget of the United States Government, Fiscal Year 1999</u> from which agencies proposed to make obligations in fiscal year 1999.
(2) Concentration of spending	<p>a) <i>Single account</i>—Agencies were classified as having a single account if they proposed to make 75 percent or more of their proposed fiscal year 1999 obligations from one budget account.</p> <p>b) <i>Multiple accounts</i>—Agencies were classified as having multiple accounts if the amount of gross obligations proposed for each account was less than 75 percent of the agency's total proposed gross obligations.</p>
(3) Number of program activities	The number of program activities shown in the Appendix of the <u>Budget of the United States Government, Fiscal Year 1999</u> from which the agency proposed to make gross obligations in fiscal year 1999. When the Appendix does not list any program activities under a particular account, the account was deemed to have one program activity, reflecting the entire budget account.
(4) Common program activity structure	A common program activity structure means that most of the agency's accounts contain program activities with the same titles.
(5) Budget structure used in performance plan	<p>a) <i>Changed structure</i>—Agencies in this category proposed to substantially change their account and/or program activity structures in the Appendix of the <u>Budget of the United States Government, Fiscal Year 1999</u> from those used in the previous year's Appendix.</p> <p>b) <i>Used fiscal year 1998 structure</i>—Agencies in this category generally used the same account and program activity structures as they did in the Appendix of the <u>Budget of the United States Government, Fiscal Year 1998</u>.</p>
(6) Number of strategic goals	The number of goals that are related directly to the agency's mission without any intervening plan elements. According to the Results Act, agencies' strategic plans are to contain general goals and objectives that elaborate on the agency mission statement and provide a set of programmatic objectives for the major functions and operations of the agencies. We defined the first layer of goals under the agency's mission statement as "strategic goals" regardless of how they were labeled in the plan.
(7) Number of strategic objectives ^a	The number of strategic objectives, that is, goals that the plan related directly to the agency's "strategic goals" as defined in (6) above. As in (6), we defined this layer of goals as "strategic objectives" regardless of how they were labeled in the plan.
B. Characteristics describing how agencies linked program activities with performance goals	
(8) Integration of performance plan with the agency's budget request	<p>a) <i>Full Integration</i>—An agency embedded its performance plans in its justification of estimates such that the justification could not logically or readily be detached from the performance plan.</p> <p>b) <i>Separable</i>—The agency's plan was either (1) a separable component of the agency's justification of estimates (e.g., an appendix) such that justification readers could either turn to or skip over the performance plan, but the plan would appear in the justification's table of contents; or (2) an entirely separate document that may or may not have been transmitted at the same time as the justification. A user would need to read the plan, as opposed to the justification, in order to understand how the agency addressed Results Act requirements.</p>

Appendix I
Objectives, Scope, and Methodology

(9) Program activities linked to ^{b, c}	Agencies were placed in one of five categories depending on the lowest performance planning structure to which the plan linked program activities. (See figure I.1 for an illustration.)
	<ul style="list-style-type: none">a) <i>Strategic goal</i>—Plan related program activities to strategic goals as defined in (6) above.b) <i>Strategic objective</i>—Plan related program activities to goals that the plan related directly to the agency's "strategic goals" as defined in (6) above. These goals may or may not have been labeled "strategic objectives" by the agency.c) <i>Performance goal</i>—Plan related program activities to performance goals and/or measures. As defined in the Results Act, a performance goal means a target level of performance expressed as a tangible, measurable objective against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate. For plans in this category, a program activity was associated with each individual performance goal/measure.d) <i>Other</i>—Plan related program activities to a structure other than its strategic goals, strategic objectives, or performance goals. In many cases, this structure was a business line or some other unit for which a single goal statement was not expressed.e) <i>None</i>—Agencies were placed in this category if the performance plan did not relate program activities to any of the above structures (strategic goal, strategic objective, performance goal, or other) in their performance plans.
(10) Plan associated dollars with	Agencies were placed in one of six categories depending on the lowest performance planning structure for which the plan presented dollar amounts. (See figure I.2 for an illustration.) <ul style="list-style-type: none">a) <i>Strategic goal</i>—Plan presented dollar amounts for each strategic goal.b) <i>Strategic objective</i>—Plan presented dollar amounts for each strategic objective.c) <i>Set of discrete performance goals</i>—Plan presented dollar amounts for any set of performance goals presented in some combination other than as described in (a), (b), (d), or (e).d) <i>Performance goal and/or measure</i>—Plan presented dollar amounts for each performance goal and/or measure.e) <i>Other</i>—Plan presented dollar amounts for a unit of analysis other than strategic goals, strategic objectives, or performance goals.f) <i>None</i>—Plan did not present dollar amounts for any performance planning or other type of structure.

Appendix I
Objectives, Scope, and Methodology

(11) Relationship of program activities to performance goals and/or measures ^d	<ul style="list-style-type: none">a) <i>One program activity to one goal</i>—Agencies were placed in this category if a program activity was linked to one performance goal.b) <i>One program activity to many goals</i>—Agencies were placed in this category if a program activity was linked to more than one performance goal.c) <i>Many program activities to one goal</i>—Agencies were placed in this category if more than one program activity was linked to one performance goal.d) <i>Many program activities to many goals</i>—Agencies were placed in this category if more than one program activity was linked to more than one performance goal.e) <i>Could not be determined</i>—Agencies were placed in this category if the plan did not convey how program activities were related to performance goals.
(12) Funding allocated to a discrete set of goals and/or measures ^e	<p>Plans that allocated funding to a discrete set of goals</p> <ul style="list-style-type: none">(a) generally showed how program activities and their requested funding were allocated among performance goals/measures or sets of performance goals/measures (plans met this criteria even if only discretionary funding was allocated) and(b) used sets of goals/measures that were unique (i.e., a single performance goal/measure is related to only one strategic objective or strategic goal).

^aWhile we quantified strategic objectives as defined, the plan may have contained other goal layers between strategic objectives and annual performance goals.

^bWe reviewed linkages between the program activities and performance goals presented in the plan. This characteristic did not assess whether all program activities were listed and covered in the performance plan.

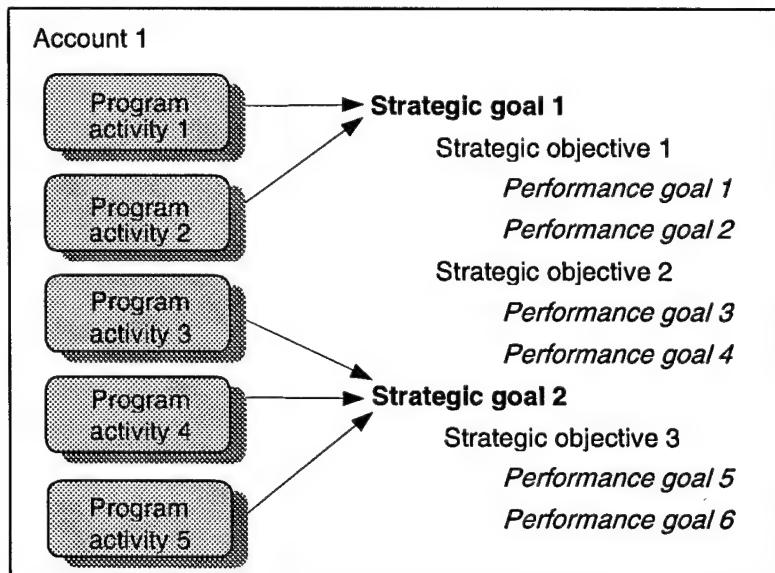
^cIf accounts were linked to the planning structure, the underlying program activities were also presumed to be linked to this structure.

^dWhen a plan contained performance goals distinct from performance measures, reviewers considered whether this assessment would change if the word “measure(s)” was substituted for the word “goal(s).” If so, measure(s) were used as the unit of analysis instead of goal(s). If agencies linked program activities to a structure other than performance goals (i.e., an intervening structure such as a strategic goal or objective), the plan reviewer determined this relationship by examining how program activities were related to the intervening structure and how the intervening structure was related to performance goals.

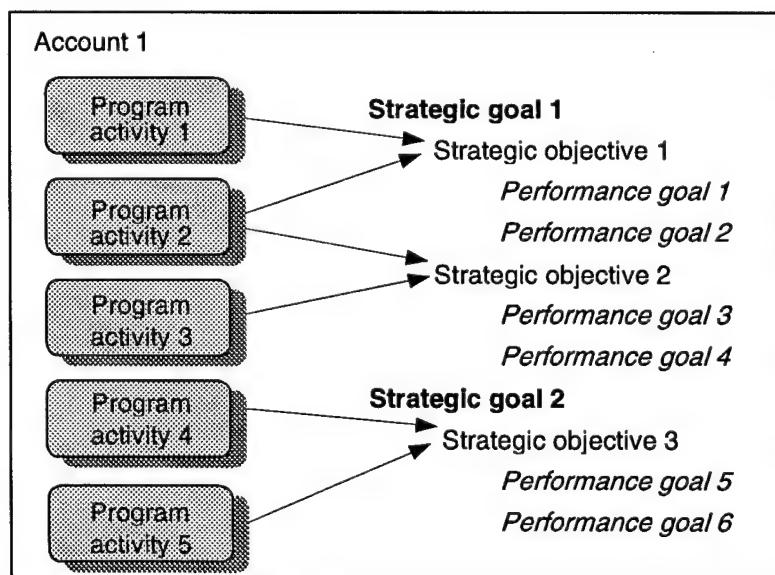
^eThe set of goals ranged in size and scope. For example, some of these plans presented allocations of funding to strategic goals or objectives, which represent discrete sets of performance goals.

Figure I.1: Illustration of Characteristic 9

Example 9(a)



Example 9(b)



Example 9(c)

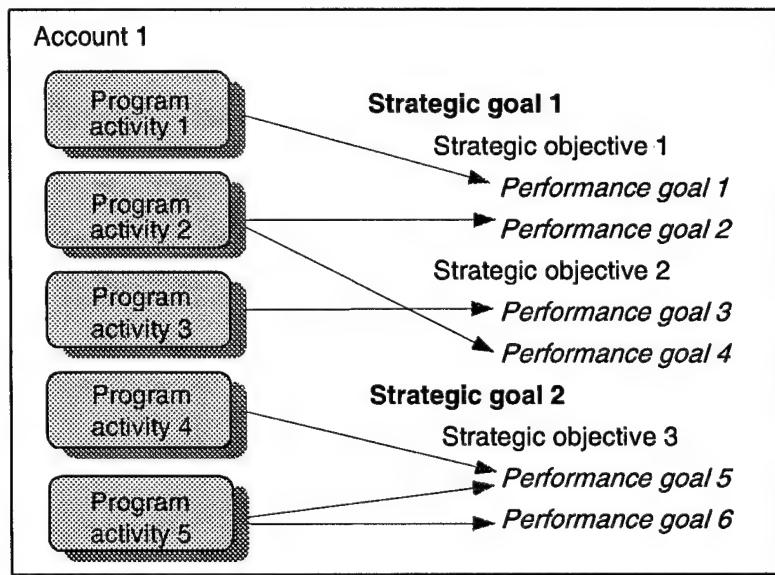
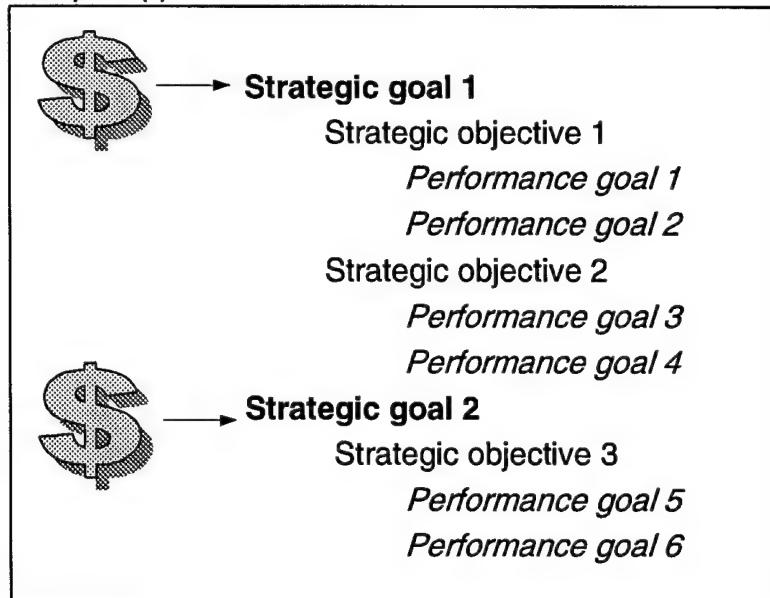


Figure I.2: Illustration of Characteristic 10

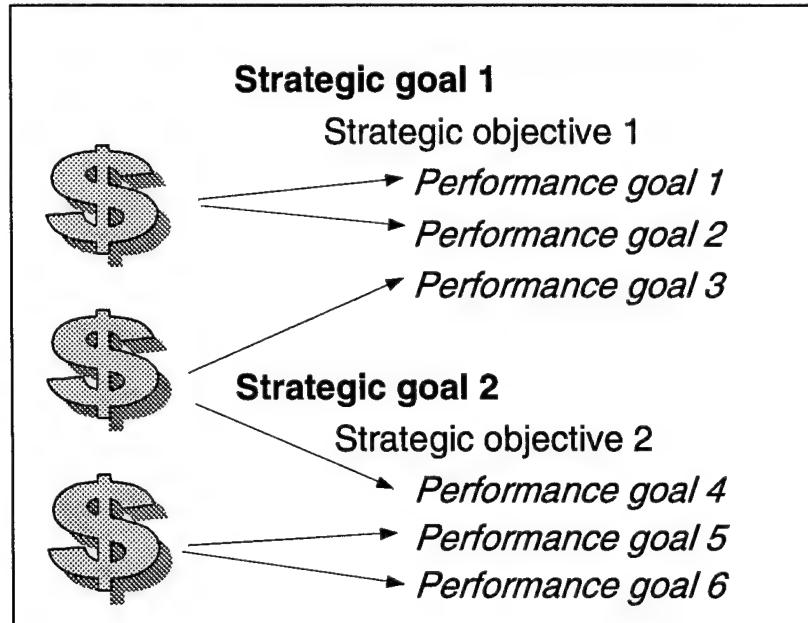
Example 10(a)



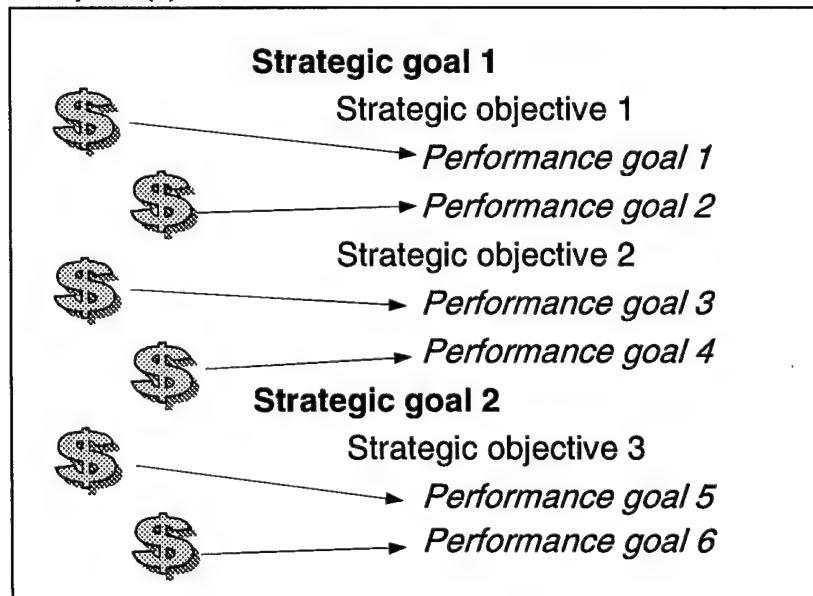
Example 10(b)



Example 10(c)



Example 10(d)



Data Analysis

To determine which characteristics of agency planning and budgeting structures were associated with linkages that showed an allocation of budgetary resources to results, we prepared contingency tables depicting the relationship between characteristic 12 in table I.2, “Funding allocated to a discrete set of goals or measures,” and each of the other characteristics. To assess whether the relationships in the tables were statistically significant, we performed two statistical techniques. When one characteristic in the table contained numeric values (e.g., characteristic 6, which measured the number of strategic goals), we used logistic regression techniques. The logistic regression technique involved regressing the odds on funding being allocated to a discrete set of performance goals on each characteristic and determining—using likelihood ratio chi square tests—whether the characteristic was associated with significant differences in those odds.

When a characteristic had nonnumeric values (e.g., characteristic 11, which had five discrete categories), we used standard contingency tables to analyze the data. The contingency table techniques involved calculating the percentages of agencies that allocated funding to a discrete set of goals across the categories of the other characteristic and computing likelihood-ratio chi square statistics to determine whether differences in those percentages were statistically significant.³ In addition to computing the likelihood ratio chi square statistic, we also computed Fisher’s exact test to assess whether a characteristic was significantly related to characteristic 12. Fisher’s exact test was used to confirm the likelihood ratio chi square results because of the small number of observations in many of our tables. In most of our analyses, the likelihood ratio chi square and Fisher’s exact test yielded similar conclusions. Where they did not, the differences appeared negligible given our sample size.⁴

When a statistically significant association was identified in a table where one or both characteristics being analyzed had more than two categories, we conducted a series of additional chi square tests before and after grouping various categories of those characteristics to discern whether our

³Criterion for statistical significance was set at about the 0.05 or less probability level. If the two characteristics were independent of each other (i.e., unrelated), it would be unlikely that probability values at or less than 0.05 would occur. If such extreme probability values do occur, the null hypothesis that there is no association is rejected.

⁴We report those results as significant where one of the statistical tests yielded a probability level that was slightly above 0.05 and the other was at or below 0.05.

description of the relationship of that characteristic with characteristic 12 could be simplified. Appendix II presents a summary of our analysis.

The intent of our statistical analyses was to quantitatively identify and explore associations of various plan characteristics with plans that did or did not allocate funding to a discrete set of goals and/or measures. However, the following qualifications apply to our analysis.

- Although the results of our analyses apply to the plans we reviewed, our plan selection procedures preclude generalizing the results to agency plans not included in our population.
- For those characteristics we identified as having a significant association with characteristic 12, it is possible that this result occurred because of the close association of that characteristic with one or more of the other characteristics that were related to characteristic 12. The small number of plans reviewed precluded our use of statistical approaches that would enable us to assess the relationship of two or more characteristics simultaneously on characteristic 12. To provide some rudimentary insight into the extent to which characteristics significantly related to characteristic 12 were related to each other, we examined whether there were significant associations among those characteristics using the same procedures described above. Significant associations were found between (1) characteristics 5 and 8,⁵ (2) characteristics 8 and 10,⁶ (3) characteristics 8 and 11,⁷ and (4) characteristics 10 and 11.⁸
- Aspects of agencies' linkages not specifically mentioned in table I.2 were not assessed. For example, we did not assess whether all agency program activities were listed and covered in the performance plan. This assessment was made in our September 1998 report.⁹
- Our analysis focused on linkages between performance goals and program activities in performance plans. We did not assess other

⁵The probabilities associated with the likelihood ratio chi square and Fisher's exact test were 0.04 and 0.07, respectively.

⁶The probabilities associated with the likelihood ratio chi square and Fisher's exact test were 0.01 and 0.03, respectively.

⁷The probabilities associated with the likelihood ratio chi square and Fisher's exact test were 0.02 and 0.03, respectively.

⁸The probabilities associated with the likelihood ratio chi square and Fisher's exact test were both less than 0.00.

⁹See GGD/AIMD-98-228, September 8, 1998.

elements of the performance plan, such as the quality of any goals presented in the plan. We also did not independently verify the funding amounts that agencies allocated to performance goals. We did not systematically assess other documents, such as agency budget justifications.

- Our review focused on the 12 characteristics mentioned above. However, there may be other characteristics that might be associated with agencies' linkages. For example, although our previous work has noted that account and program activity orientation may be important factors in making linkages, the subjective nature of this characteristic prevented its inclusion in our analysis.

Finally, to identify implications for future performance budgeting efforts, we gathered information on congressional perspectives. In addition to discussing the plans' linkages between budgetary resources and results with selected appropriations staff, we also reviewed the House Committee on Appropriations' hearing records on agencies' fiscal year 1999 appropriations, giving special attention to how lawmakers reacted to the performance information presented in performance plans and budget justifications. We discussed the status of performance budgeting pilots with OMB. We requested comments on a draft of this report from the Director of OMB or his designee and incorporated OMB's comments as appropriate. We conducted our work in accordance with generally accepted government auditing standards from August 1998 to February 1999.

Summary of Our Analysis

Nonnumeric characteristics	Allocated program activity funding to performance goals		Did not allocate program activity funding to performance goals		Total	Probabilities	
	Number	Percent	Number	Percent		Likelihood ratio	Fisher's exact
Concentration of spending							0.766 1.000
Spending in multiple accounts	10	42	14	58	24		
Spending concentrated in one account	4	36	7	64	11		
Program activity structure							0.768 1.000
Not common	13	39	20	61	33		
Common	1	50	1	50	2		
Budget structure used in the performance plan							0.015 0.056
Proposed change in structure	3	100	0	0	3		
Used fiscal year 1998 structure	11	34	21	66	32		
Integration of performance plan							0.016 0.028
Separate from budget justification	9	31	20	69	29		
Fully integrated with budget justification	5	83	1	17	6		
Program activities linked to							0.199 0.375
Strategic goal	3	50	3	50	6		
Strategic objective	3	43	4	57	7		
Performance goal	7	50	7	50	14		
Other	1	33	2	67	3		
None	0	0	5	100	5		
Plan associated dollars with							a a
Strategic goal	5	71	2	29	7		
Strategic objective	3	50	3	50	6		
Set of performance goals	4	100	0	0	4		
Performance goal	0	0	1	100	1		
Other	1	50	1	50	2		
None	1	7	14	93	15		
Relationship of program activities to performance goals							0.000 ^b 0.001 ^b
Simple relationship	8	100	0	0	8		
Complex relationship	6	27	16	73	22		

Appendix II
Summary of Our Analysis

^aAlthough the probabilities for this characteristic were 0.05 or less, our analysis revealed the source of statistical significance was the difference between the "none" category and all of the other categories shown for this characteristic combined.

^bWe could not determine the relationship between program activities and performance goals for 5 agencies. Therefore, we determined whether there were significant differences among the remaining 30 agencies.

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

Michael J. Curro, Assistant Director
Laura E. Castro, Evaluator-in-Charge
Linda F. Baker, Senior Evaluator
Toni J. Wehman, Evaluator

General Government Division, Washington, D.C.

Thomas M. Beall, Senior Social Science Analyst
Douglas M. Sloane, Supervisory Social Science Analyst

Appendix III
Major Contributors to This Report
